

12 May 2022

Banking

OPR Hike (+25 bps) Earlier Than Expected

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OVERWEIGHT



Yesterday, BNM raised the OPR by 25 bps to 2.00%. This came sooner than anticipated, against our in-house expectations of (two) rate hikes only in 2HCY22. The tightening is likely to impede inflationary consequences from recent volatile commodity prices and supply chain disruptions. That said, this is undoubtedly a boon for financial institutions as they will be able to price in higher rates and lift earnings. We do not believe the hike would be disruptive to the local economy as of yet as industry asset quality still appears manageable post moratorium. Corporates have guided a 2-4 bps increase in NIMs, which appears true following our model updates. While this translates to earnings increase of <5%, we believe the move by BNM will only strengthen sentiment as it could be indicative of further hikes to come, contemplative of the US Fed's recently hawkish stance. We maintain our OVERWEIGHT call on the sector with our favourites being: (i) RHBBANK (OP; TP: RM6.95) for its high floating rate mix and recent digital banking win; and (ii) HLBANK (OP; TP: RM22.85) as a safe haven pick for investors fearful of unfavourable developments in macros and potential worsening in asset quality.



Earnings bump for the banks. As we reflect a higher OPR of 2.00% in our model assumptions commencing May 2022, we expect this to translate to earnings revisions of up to 3%. While we keep other key assumptions unchanged for now, we had anticipated that there could be some erosion in NIMs in CY23 as competition for deposits may continue to be intense. Still, the higher OPR would support the margin gains seen since July 2020's 1.75% OPR levels where deposit products had been progressively repriced efficiently than financing ones. Overall, this led to a marginal increase in several of our target prices with our stock calls remaining intact. Not forgetting, CY22 would bear the brunt of the one-off prosperity tax in addition to sequential decline in investment and trading gains as market sentiment is predicted to be comparatively softer.

Impact to NIM Assumptions from OPR Hike

Bank	Previous NIM Assumptions		Updated NIM Assumptions		Earnings Revision		Previous TP	Updated TP	Call
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E			
ABMB *	2.56%	2.55%	2.56%	2.58%	0.00%	1.61%	4.10	4.10	OP
AFFIN	2.06%	2.01%	2.08%	2.05%	1.95%	3.23%	2.40	2.40	OP
AMBANK *	2.07%	2.06%	2.07%	2.09%	0.00%	2.26%	4.05	4.10	OP
BIMB	2.80%	2.75%	2.82%	2.78%	0.65%	0.98%	2.75	2.75	MP
CIMB #	2.48%	2.48%	2.49%	2.49%	0.77%	1.03%	5.65	5.65	OP
HLBANK ~	2.03%	1.98%	2.03%	2.00%	0.32%	2.27%	22.70	22.85	OP
MAYBANK	2.19%	2.24%	2.21%	2.27%	1.19%	1.87%	11.00	11.05	OP
MBSB	3.06%	3.03%	3.08%	3.06%	1.28%	1.66%	0.520	0.520	UP
PBBANK	2.26%	2.29%	2.27%	2.30%	0.66%	0.73%	4.35	4.40	MP
RHBBANK	2.08%	2.05%	2.09%	2.06%	0.69%	0.88%	6.95	6.95	OP

Notes:

* Financial Year Ending March

~ Financial Year Ending June

Malaysian operations make up c.60% of group

Source: Kenanga Research

Maintain OVERWEIGHT on the Banking Sector. We believe investors would react positively to the higher OPR, reaffirmed by the improved earnings prospects that could be seen with further rate hikes to come. We had reflected higher valuations in our April 2022 – Banking Strategy report and we believe opportunities for capital gains are still present. Selectively, we had favoured stocks with additional value propositions to be our Top Picks for this 2QCY22 period, namely: (i) RHBBANK (OP; TP: RM6.95); and (ii) HLBANK (OP; TP: RM22.85). RHBBANK's successful bid with Boost Holdings for a digital banking licence could stir greater interest when details of its strategic plans are made available. Meanwhile, we had thought that RHBBANK would be the quickest beneficiary of OPR hikes given its higher floating rate financing mix. HLBANK could be seen as a contrarian pick. While it is expected to benefit from a greater demand for loans like its peers, its better-than-pre-pandemic GIL ratios indicates high asset quality safety in the event of any unforeseen worsening of Covid-19 or global macros that may affect overall asset quality prospects.

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Peer Table Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE(%)		Net DivYld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
Stocks Under Coverage																		
AFFIN BANK BHD	2.08	4,418.0	N	12/2022	9.8%	3.7%	10.6%	20.8%	8.3	7.5	6.2	0.4	0.4	5.8%	5.3%	2.40	OP	
ALLIANCE BANK MALAYSIA BHD	3.61	5,588.7	N	03/2022	-6.2%	2.5%	60.4%	16.7%	15.6	9.7	8.3	0.9	0.8	8.9%	4.2%	4.10	OP	
AMMB HOLDINGS BHD	3.63	12,029.5	N	03/2022	-0.1%	6.7%	46.3%	11.9%	11.6	8.7	7.8	0.7	0.8	9.1%	2.4%	4.10	OP	
BIMB HOLDINGS BHD	2.90	6,250.3	Y	12/2022	-7.1%	0.6%	-2.7%	14.8%	13.5	13.9	11.9	1.1	1.1	7.9%	3.6%	2.85	MP	
CIMB GROUP HOLDINGS BHD	5.08	53,209.2	N	12/2022	4.4%	4.7%	-5.0%	31.3%	11.0	11.5	8.8	0.9	0.8	7.4%	4.5%	5.65	OP	
HONG LEONG BANK BHD	20.38	44,178.1	N	06/2022	3.9%	7.7%	6.0%	21.7%	14.6	13.8	11.3	1.4	1.3	10.0%	2.7%	22.85	OP	
MALAYAN BANKING BHD	9.04	108,208.9	N	12/2022	3.7%	6.4%	4.2%	21.7%	13.0	12.5	10.2	1.2	1.2	9.7%	6.6%	11.05	OP	
MALAYSIA BUILDING SOCIETY BHD	0.625	4,482.2	N	12/2022	66.9%	4.8%	28.5%	30.0%	10.2	8.0	6.1	0.5	0.5	6.4%	5.6%	0.520	UP	
PUBLIC BANK BHD	4.64	90,065.6	N	12/2022	6.8%	5.3%	-1.1%	25.1%	15.9	16.1	12.9	1.9	1.8	11.3%	3.3%	4.40	MP	
RHB BANK BHD	6.07	25,147.5	N	12/2022	5.9%	3.3%	-4.9%	13.3%	8.8	9.2	8.1	0.9	0.8	9.3%	5.3%	6.95	OP	
Simple Average					8.8%	4.6%	14.2%	20.7%	12.2	11.1	9.2	1.0	1.0	8.6%	4.4%			

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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